IMPACT OF PRESENT PREMIUM METHOD ON AGENCIES

RECEIVING FEDERALLY MATCHED FUNDING

(Effect of Cash-Funding Mechanism on Federally-Matching Fund Programs)

Discussion

As the Office of Risk Management (ORM) has moved to a cash needs basis for program funding, it has begun billing the client agencies, boards and commissions based on the next fiscal year's actual cash needs as opposed to a true "premium" sufficient to cover all premium year losses to ultimate conclusions. Resolutions Services, Inc. researched this issue: "Has this conversion to cash needs-based premium billing adversely affected the state in its receipt of federally matched funds?" The two agencies expected to receive the majority of federally-matched funds are the Department of Transportation and Development (DOTD) and the Department of Health and Hospitals (DHH). The following interviews were conducted in an effort to explore how these two agencies account for overhead and operating expenses that are subsequently passed through various matching fund federal programs:

- Mr. Bobby Keaton and Mr. Craig Gannuch, Joint Legislative Budget Office
- Mr. Bob Rachal, Office of Planning and Budget, Division of Administration
- Mr. Ken Alvarez and staff, Office of Inspector General
- Mr. Stan Mead, DHH
- Mr. Sal Faldetta, DOTD

Is Louisiana Maximizing Its Participation in Federally Matched Fund Programs?

With respect to DOTD, Mr. Faldetta explained that the U. S. government has limited highway funds apportioned annually to each state. Louisiana, due to its terrain, soil composition and population density, is among those states that participate in programs maximizing federal funds available. In fact, near the end of each fiscal year the U.S. government makes unclaimed funds available. Louisiana has not encountered difficulty in sponsoring projects to avail itself of those funds. ORM's premium data is used to calculate the overhead man-hour and machine rates employed in federally-funded programs. Mr. Faldetta was aware of "debtor" states, i.e., those states traditionally paying in more than they receive, employing creative cost overhead accounting methods to maximize their share of available funds. While this might be a process that is available, it would not result in a net increase in federal funds in Louisiana.

The issue is less clear at DHH. They also employ the premium notices submitted by ORM. Their programs are heavily federally funded. Many programs are actually separate entities. It did not appear that the issue of total cost of insurance has been given thorough consideration. It may be possible that a different form of accounting methodology or even the purchase of actual insurance policies by the state for specific agencies might have a positive effect here. A copy of the Office of Management and the Budget (OMB) circular explaining the various accounting practices acceptable to the government was obtained. While pure insurance costs can be passed directly through, self-insurance requires a reserve fund with inflows and outflows of money carefully tracked.

Summary of Findings

State agencies other than the DOTD that receive appreciable federally-matched funds might wish to undertake further inquiry including dialogue with their respective federal agencies to discuss alternative ways the cost of insurance can be reported. Executives in other states might be contacted to determine how this matter is handled. Clearly, requesting reimbursement based upon a pro-rata determination of an agency's fiscal cash needs is far different than if the total actuarial cost of insurance for the stated period were to be billed. One assumes that the funding program will continue to exist well enough into the future to adequately reimburse for its share of losses that occurred during the single premium year. This may or may not be a valid assumption depending upon the program.